

THIRD DRAFT

USAID/ECUADOR

FY 1995 ANNUAL BUDGET SUBMISSION

I. Mission Director's Narrative Statement

A. Country Setting

Ecuador is a country of stark contrasts. It is a poor country with deeply rooted development problems, yet it is a country blessed with rich natural resources. It was one of the first countries in Latin America to return to democratically elected government in 1979, but the institutional base for democracy remains extremely weak. The country's location between two drug and violence plagued neighbors gives it considerable U.S. foreign policy interest. It is an island of fragile stability in a zone of continual crisis.

Naturally suited for agriculture-based development, Ecuador is rich in economic potential. However a veneer of modern infrastructure masks extensive poverty and a growing informal economy. Per capita income at US\$ 1000 lags behind that of Peru and El Salvador, only slightly ahead of Bolivia, Guatemala and the Dominican Republic, and less than half of the US\$2,130 average for the Latin America & Caribbean Region, (IBRD 1993) (UNDP 1993). During the decade-long recession of the 1980's and into the early 1990's, the average annual per capita GNP growth rates were negative, and wages decreased in real terms by over 60%.

Massive external debt amounting to US\$ 12.5 billion, or 105% of GDP, still burdens the economy, impeding growth. Wide income and social welfare disparities persist among the country's regions and between indigenous and non-indigenous populations. High rural migration to the cities reflects seriously declining standards of living in the countryside, ultimately threatening standards of living in urban areas as well. Quito and Guayaquil are growing by 4.5% annually. The urban population is more than twice as likely to have access to health services as the rural population; only 37% of rural people have access to safe water and 34% of rural people have access to sanitation. Of a population of approximately 10.6 million, 5.4 million fall below UNDP's poverty line; 65% of the rural population falls below the line. The rural/urban disparity ratios (33/100 for access to health services) are lower than ratios for Nicaragua, Guatemala, El Salvador and Bolivia and roughly equivalent to the ratios for Mozambique and Somalia (UNDP 1992).

The economy, while growing moderately in the 1990's (1.3% growth in per capita GDP in 1992), relies heavily on traditional exports highly vulnerable to external shocks. Petroleum production currently contributes 12% to GNP and roughly 38% to government revenues, but the country's oil reserves are projected to decline by 70% by the year 2010. The oil bonanza of the 1970's was double

edged, providing a much needed boost to growth for more than a decade, but at the same time impeding expansion of other important sectors and leading the economy onto an unsustainable path, overly dependent on a single, extractive, non-renewable resource.

In recent years, namely the second half of the Rodrigo Borja administration and the first year (1992-1993) of the Sixto Durán-Ballén administration, the country's economic performance has improved. A significant economic reform process has begun, the results of which were described in detail in USAID/Ecuador's 1994-1995 Action Plan. Highlights of the reforms are: substantial progress in trade liberalization, including reduction or elimination of tariffs and non-tariff barriers, implementation of free trade agreements between Ecuador, Colombia and Venezuela, indicating progress toward Andean integration. Moreover a bilateral free trade agreement and a bilateral investment treaty were signed with the United States in July 1991 and August 1993 respectively. Financial reform, budget reform, judicial reform and the first steps toward "modernization of the state", including privatization were also undertaken. The government recently embarked on a restructuring of the national social security system, a decentralization of the public health system and the creation of a social emergency fund. A new IMF standby agreement is expected to be completed by the end of the year.

Positive trends in some key human development indicators can also be detected. A steady decline in the country's population growth rate (now 2.3% annually) (IBRD 1992) would indicate that the "demographic transition" has been reached in so far as a national average tells the story. National infant mortality rates dropped below 55/1000 in the early 1990's, with urban rates falling below 45/1000. Illiteracy at roughly 16% is relatively low. Yet, life expectancy (66) in Ecuador is only slightly above Peru and Guatemala (64) and lower than the Dominican Republic (67). Maternal mortality is on a par with Nicaragua -- 200/100,000 (IBRD 1993). And as noted, national averages do not reliably reflect reality in Ecuador with its substantial internal imbalances. Rural infant mortality remains above 100/1000 in many areas, well over double the figure compared to urban areas. Both economic and social sector reforms require substantially increased support to ensure that gains are more equitably distributed among the population.

The USAID/Ecuador program has been a major impetus to the reform process in the country. The Mission has provided vital support for policy reforms and our efforts have won us an important seat at the table with the country's leadership and the donor community. This USAID is a model of an AID Mission with limited funds, structured in an innovative way to promote dialogue and to leverage local and external resources in partnership with the GOE, NGO's and other donors.

Ecuador is committed to policies that will achieve equitable and sustainable development. The country is an emerging leader in the global environmental community as it takes steps to protect one of the worlds largest reserves of biodiversity. Yet policy makers face immediate and difficult choices in a host of areas such as land reform, new oil exploration, colonization in the Amazon, forestry and pollution issues if they are to rationalize the use of the country's precious natural resources, whose impact extends well beyond the country's own frontiers. As well, a recent constitutional change (January 1993) to create a more politically and financially independent judiciary marks an important step toward much needed justice sector reform. But significant constraints to achieving an effective and fair justice system remain and threaten confidence in leaders and civil institutions, the under-pinnings of democracy.

Ecuador needs AID's support to accelerate and deepen the modernization and reform process, if it is not to fall prey to the obvious negative political and economic forces at work across its borders. The specter of Ecuador's unemployed entering into narcotics production and increased trafficking is a frightening one. Endemic poverty, environmental degradation, and ineffective governance, overhang the country's future. AID's assistance is critical to bolstering Ecuador's initiatives to solve problems in these areas of such significant mutual interest.

## **B. Mission Program**

### **1. General Overview**

During the past fifteen years, this USAID has been successful in promoting greater awareness among Ecuadorians of key development problems and in helping to identify and pioneer more appropriate policy and program interventions. This has been achieved in large part through the development and strengthening of non-profit private organizations (NGOs) that have served as "think tanks" and public advocacy and education instruments. Unlike any other donor, AID has provided Ecuadorian reformers with the needed technical, institutional and financial resources to organize themselves to raise public awareness of critical problems and then advocate and accelerate the reform process for addressing these problems. In this area, no other donor has a track record like AID's. Indeed, other donors have urged us to further expand our efforts in this area so as to support their much larger policy-based programs and create a more positive environment for the reform process.

For example, USAID has been the leader in developing three highly successful population NGOs (APROFE, CEMOPLAF, CEPAR) that have played vital roles in advocating family planning, providing services, promoting a national population policy, and helping dramatically to lower the country's population growth rate. Because of AID's pioneering support throughout the 1980's to the

NATURA Foundation, Ecuador today has one of Latin America's leading environmental education NGOs and much greater public awareness of the country's serious environmental degradation problems. The USAID-initiated IDEA Foundation has promoted historic agricultural policy reforms and helped establish the framework for large IDB and IBRD policy-based sector programs. The newer USAID supported Ecuador Foundation, along with non-traditional export organizations like PROEXANT and FEDEXPOR, are playing lead roles in advocating trade and investment reforms, promoting privatization and lobbying for social security improvements and the modernization and decentralization of the public sector. Mission support to a new judicial sector NGO -- the Latin American Development Center (CLD) has been instrumental in accelerating constitutional changes affecting the judiciary and promoting awareness and consensus for action to improve the administration of justice and further deepen judicial reform.

USAID's successful efforts in achieving significant policy reforms through NGOs are acknowledged as fundamental to our "comparative advantage" among donors. The USAID portfolio is largely built upon agreements with non-governmental organizations, and the NGO sector will receive increased emphasis as the program focusses more on participation of private citizens and the sustainability of local organizations in order to meet development objectives. These USAID supported institutional actors are not only vital instruments for policy reform but they also strengthen Ecuadorian democracy by encouraging pluralism, facilitating greater citizen participation in the country's development programs, and promoting partnership among public and private sector leader and the donor community. USAID is the only donor able and willing to adopt such an approach and this approach continues to be a key strategy in the policy-focussed USAID program proposed for FY 1994-1995.

This Mission also plays an important role in donor coordination. As the only significant bilateral donor and the de-facto leader of the informal but effective donor coordinating group, the Mission has achieved significant influence over the development banks' planned activities, for example in the health and agriculture sectors, in order to harmonize those activities with ours in promoting Ecuadorian policies and objectives. We have also successfully joined forces with the IBRD and the IDB to support project activities begun by the USAID where our limited resources are insufficient to address problems alone. Our \$380,000 investment in a Coastal Management Resources project will be followed by a US\$12 million loan from the IDB. The Social Emergency Fund designed and initiated by this Mission this year with \$ 4.5 million in ESF local currencies will be continued by the World Bank through a \$ 30 million project. These examples of successful collaboration between the USAID and the international financial institutions form a basis for future leveraging of Mission program funds and ideas.

The USAID/Ecuador program is being implemented using a strategic, policy based framework managed by interdisciplinary teams which include our public and private sector counterparts. This Mission has considerable experience in setting program objectives and monitoring progress toward the achievement of these objectives. Administrator Atwood recently cited USAID/Ecuador as a model Mission in "managing for results". A pioneer in the implementation of a Program Performance Assessment System (PPAS), the USAID will further its emphasis on accountability for results and impact in its consolidated FY 94-95 portfolio. Monitoring and evaluation plans at the project and strategic objective levels will serve as guides to managers in order to maintain a results orientation in the direction of the program.

## **2. The FY 1995 ABS Program**

The USAID/Ecuador Mission has met with considerable success both in terms of program impact and internal management innovation. This 1995 Annual Budget Submission exercise, which signals potential reductions in program and operating expense levels for future years, presents us with extremely difficult choices. Under all budget scenarios such choices involved the reduction of the program from the five Strategic Objectives (SOs) with which we have worked for three years and have achieved significant success and momentum. To maintain momentum and consolidate gains while coping with reduction in resource levels will require restructuring and further innovation in the way this USAID works.

The program outlined in this ABS represents our best response to AID/Washington given a very short time frame. During the months ahead, as we prepare our FY 95-96 Action Plan, which will be based on the outcome of the ABS decisions and benefit from further program guidance from the new Administration, we will continue the process of further refining the Mission strategy and finding new ways to maintain the program's positive impact and to take advantage of USAID's established leadership role in this country.

The program outlined here is presented in three incremental program levels and two for operating expenses. However, even under the most positive scenario, i.e. 100% of FY-94 CP level and 100% of planned OE level, the Mission has decided to consolidate the program and refocus activities under four principal areas instead of the five approved in the FY 94-95 Action Plan. As well, we will reduce the scope of activities under the SOs to place more emphasis on policy reform and somewhat less on direct service delivery. It is our judgement that with the prospect of diminished program levels and a smaller staff, this restructuring is the best way to utilize resources effectively. The four Strategic Objectives will correspond to AID's four global problems receiving priority emphasis -- economic growth, population and health, democracy and environment.

The USAID/Ecuador Strategic Objectives are as follows:

- 1) Increase sustainable economic growth for a broad base of the population.
- 2) Increase use, effectiveness and sustainability of family planning and selected health services.
- 3) Improve responsiveness of selected democratic institutions with greater citizen participation.
- 4) Promote sustainable use of the natural resource base.

The new Strategic Objective 1 will emphasize improving the trade and investment climate, reforming agricultural policies and increasing the incomes of our target group, small and medium producers. A major new agriculture initiative outlined in the last Action Plan has been eliminated with an eye toward restructuring the agricultural portfolio around sector policy reform and moving away from direct involvement in research and technology transfer. Thus the Agricultural Sector Program (LOP \$8 million) does not appear in any of the budget scenarios submitted with this ABS.

Activities under the new SO 2 closely parallel those under the previous objective in health and family planning, maintaining the emphasis on "use, effectiveness and sustainability of family planning and selected health services" but with increased attention to sector policy. Likewise the new SO 3 in the democracy area (previously SO 4) will be retained to primarily focus on justice sector reform. The environmental objective (now SO 4) is changed from its' previous focus on biodiversity to address more intensively the natural resource policy and management issues currently under joint review with the GOE in a USAID - initiated Environmental Action Plan activity.

The Mission's ability to effectively manage its future program obviously depends on the availability of sufficient program funding combined with managerial and administrative support. Both program and OE funds must be adequate to ensure effective results-oriented management and accountability. At the 100% of FY-94 CP level, with a reduction of five Strategic Objective to four, the Mission has determined it will not be able to begin a new Agricultural Sector program, nor initiate any new trade and investment activities, nor consider any further narcotics awareness or elections support, and must forgo any additional funding to the WASHED, Cholera or Community Pharmacy (ASOPROFAR) projects. At levels below 100% of FY-94 CP the Mission will further reduce the scope of SO activities and at the lowest program funding level (50%) we will further reduce the number of SOs on the assumption that OE levels will also decline.

At the 100% and 75% of CP levels we can maintain four restructured and more focussed Strategic Objectives and achieve our planned results because the Mission has excellent relations, credibility, and influence in the policy arena and a targeted policy reform agenda supported by the Policy Dialogue Support Project (518-0089), as well as an innovative team management structure with extensive use of FSN professionals. Given the nature of the Mission as a Regional Support Center, economies of scale on the OE side can also be achieved.

With program funds reduced to 75% of CP level, four SOs will be retained but with further reduction in the scope of activities. At a program level of 50% of CP level, one entire SO must be eliminated reducing our SOs to three. With adequate OE levels, the Mission can support a program focussed around the four strategic objectives. Assuming however, that a 50% reduction in the program level would also entail cuts in OE funds, those cuts would drive a substantial curtailment of program activities and a contraction to three strategic objectives. Due to the extremely staff-intensive nature of the democracy area and the design and implementation requirements for our justice sector reform project, it is likely that SO 3 would have to be dropped under that scenario. Program assumptions at 100%, 75%, and 50% of the FY-94 CP level are presented accordingly. (See Section I.C, Matrix and explanatory notes below).

**SECTION I.C**  
**FY 1995 ANNUAL BUDGET SUBMISSION**  
**MISSION DECISIONS UNDER DIFFERENT BUDGET SCENARIOS**  
**MATRIX BY STRATEGIC OBJECTIVE**

<b>Mission Strategic Objective</b>	<b>FYs 94/95 at 100% of CP Budget Scenario A.</b>	<b>FYs 94/95 at 75% of CP Budget Scenario B.</b>	<b>FY 94 at 75% of CP and FY 95 at 50% of CP Budget Scenario C.</b>
<b>Strategic Objective # 1</b>  <p style="text-align: center;"><b>Growth</b></p>	-SO 1 and SO 2 consolidated into one Sustainable Growth SO and reduced in scope -Mission designs Project 518-0118, Trg. for Development to support all SOs at US\$6.0 million LOP	-SO 1 and SO 2 consolidated into one Sustainable Growth SO and reduced in scope -Mission designs Project 518-0118, Trg. for Development to support all SOs at US\$6.0 million LOP	-SO 1 and SO 2 consolidated into one Sustainable Growth SO and reduced in scope -Mission designs Project 518-0118, Trg. for Development to support all SOs at US\$6.0 million LOP
<b>Strategic Objective # 2</b>  <p style="text-align: center;"><b>Population and Health</b></p>	-LOP for Project 518-0084, Health and Family Planning increased to US\$15.0 million -Mission designs Project 518-0113 Health Care Financing at \$4.0 million LOP -Mission designs Project 518-0118, Training for Development to support all SOs of US\$6.0 million LOP	-LOP for Project 518-0084, Health and Family Planning increased to US\$15.0 million -Project 518-0113 Health Care Financing eliminated and scope of SO reduced to become a Family Planning SO by FY 1997 -Mission designs Project 518-0118, Training for Development to support all SOs of US\$6.0 million LOP	-LOP for Project 518-0084, Health and Family Planning increased to US\$15.0 million -Project 518-0113 Health Care Financing eliminated and scope of SO reduced to become a Family Planning SO by FY 1997 -Mission designs Project 518-0118, Training for Development to support all SOs of US\$6.0 million LOP



<p>Strategic Objective # 3</p> <p><b>Democracy</b></p>	<p>-Mission designs Project 518-0120 Justice Sector Reform at LOP of US\$8.0 million</p> <p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>	<p>-Mission designs Project 518-0120, Justice Sector Reform at a reduced LOP of US\$6.0 million</p> <p>-Mission reduces LOP under Project 518-0091, CLASP II by US\$2.0 million</p> <p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>	<p>-Mission eliminates SO 3 Project 518-0120, Justice Sector Reform</p> <p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>
<p>Strategic Objective # 4</p> <p><b>Environment</b></p>	<p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>	<p>-Mission reduces LOP under Project 518-0117 by US\$500,000</p> <p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>	<p>-Mission reduces LOP under Project 518-0117 by US\$500,000</p> <p>-Mission designs Project 518-0118, Training for Development, at US\$6.0 million, to support all SOs</p>

### Explanatory Notes to Decision Matrix

As per ABS Guidance, the Mission has developed alternatives for its development assistance program composition and scope, using the following three program budget scenarios:

**Budget Scenario A:** 100% of the FY 1994 CP for both FY 1994 and FY 1995.

**Budget Scenario B:** 75% of the FY 1994 CP for both FY 1994 and FY 1995.

**Budget Scenario C:** 75% of the FY 1994 CP for FY 1994 and 50% of the FY 1994 CP for FY 1995.

Under these three Budget Scenarios, the impacts on the USAID/Ecuador development program, and the programmatic decisions and choices made by the Mission, by Strategic Objective, are the following:

**Strategic Objective 1: Increase sustainable economic growth for a broad base of the population**

#### Under Budget Scenarios A, B, and C:

- Mission reduces the number of SOs from 5 to 4 by consolidating Strategic Objective 1 (Trade and Investment) and Strategic Objective 2 (Agricultural Income) into one Sustainable Growth SO (the new SO 1), to reflect the elimination of Project 518-0111, Agricultural Sector Development and of agricultural research and extension field activities previously contemplated under this Project.
- Mission continues the design of Project 518-0118, Training for Development, which supports all Strategic Objectives, at an LOP level of US\$ 6.0 million, to be initiated in FY-95.

**Strategic Objective 2: Increase use, effectiveness and sustainability of family planning and selected health services**

#### Under Budget Scenarios A, B, and C:

- Mission increases LOP for Project 518-0084, Health and Family Planning II by US\$ 4.5 million to expand policy dialogue activities and increase support to family planning service delivery NGOs.
- Mission continues the design of Project 518-0118, Training for Development, which supports all Strategic Objectives, at an LOP level of US\$ 6.0 million, to be initiated in FY-95.

Under Budget Scenario A:

- Mission continues the design of Project 518-0113, Health Care Financing, at an LOP level of US\$ 4.0 million, to be initiated in FY-94.

Under Budget Scenarios B and C:

- Mission eliminates Project 518-0113, Health Care Financing, previously contemplated at US\$ 4.0 million LOP, and redesigns Project 518-0071, Child Survival to expand the scope of the project and use the pipeline to include health care financing policy dialogue activities. These decisions result in a reduction of the scope of SO 2 which would become a Family Planning SO starting around mid FY-97.

**Strategic Objective 3: Improve responsiveness of selected democratic institutions with greater citizen participation**

Under Budget Scenario A:

- Mission continues the design of Project 518-0120, Justice Sector Reform, at an LOP level of US\$ 8.0 million, to be initiated in FY-94.

Under Budget Scenarios A and B:

- Mission continues the design of Project 518-0118, Training for Development, at an LOP level of US\$ 6.0 million, to be initiated in FY-95, including Project support to SO 3.

Under Budget Scenario B:

- Mission continues the design of Project 518-0120, Justice Sector Reform, at a reduced LOP level of US\$ 6.0 million, to be initiated in FY-94.

Under Budget Scenarios B and C:

- Mission reduces LOP under Project 518-0091, Ecuadorian Development Scholarship Program (CLASP II) from U.S.\$ 6.6 million to US\$ 4.6 million, to reflect reduced funding levels and provide for a smooth transition into Project 518-0118, Training for Development which will support all Strategic Objectives.

Under Budget Scenario C:

- Mission eliminates the Democratic Initiatives Strategic Objective, as well as Project 518-0120, Justice Sector Reform. Accordingly, the Number of SOs are reduced from 4 to 3. This

decision, the reasons for which are further explained above, is forced by ABS guidance with regards to potential drastic reductions in OE levels.

- Mission discontinues support to SO 3 under Project 518-0118, Training for Development.

**Strategic Objective 4: Promote a sustainable use of the natural resources base**

Under Budget Scenarios A, B, and C:

- Mission redefines Strategic Objective 4 (previously SO 5) to carry out policy dialogue and leverage other donor support.
- Mission continues the design of Project 518-0118, Training for Development, at an LOP level of US\$ 6.0 million, to be initiated in FY-95.

Under Budget Scenarios B and C:

- Mission reduces the scope and LOP for Project 518-0117 Environmental Education with OIKOS from US\$ 2.5 to US\$ 2.0 million to adjust for reduced funding levels.

#### **D. Operating Expense Narrative**

As of October 1, 1993 at the 100% Program funding level the USAID/Ecuador program will include 23 projects with Life of Project (LOP) Funding of \$120.1 million. During the next two fiscal years (FY 1994-95) the number of projects and the LOP will decline. The OE funded USAID staff is largely allocated to supporting project implementation that involves significant US and local NGOs managing highly sensitive programs requiring intense USAID assistance and monitoring. As described above, the Mission provides leadership for vital policy dialogue activities and pioneers new development initiatives such as judicial reform that are quite staff intensive.

In addition, USAID/Ecuador also performs a regional support function to the northern cone of South America. There are five regional support offices collocated with this bilateral Mission: The Regional Housing and Urban Development Office for South America (RHUDD/SA), the Regional Contracting Office (RCO), the Regional Legal Advisor (RLA), the Regional Environmental Advisor (REA) and the Regional Controller who handles the financial management responsibility for Colombia. This has not taken place by accident. A stable democracy, lack of terrorism and drug related problems, available, inexpensive housing, the lowest post differential of any USAID Mission in South America, a two-hour post and easy one hour flights to the countries it serves, are just some of the reasons that led to the establishment of a de-facto regional service center in Quito.

The above program narrative describes the proposed program options at different funding levels. The Mission has decided to reduce Strategic Objectives (SOs) from five to four, even at the full funding option and to further reduce the scope of our SOs at the 75% program level. This of course, assumes that we are able to maintain a reasonable OE level. However, at the lowest program level of 50%, the assumption is that the Mission would be required to have a 75% OE level which in turn would require further reductions in SOs from four to three. Because of the Democratic Initiative SO is the most staff and management intensive, we would reluctantly be forced to drop this SO at the 75% OE level. The following shows a plan for reaching this OE level.

##### **1. FY 94**

USAID/Ecuador's FY 93 Operating Expense level was originally \$2,640,000. Due to the transfer of responsibility for USAID/Colombia's accounting from USAID/Peru to USAID/Ecuador an additional \$40,000 was allocated to this Mission during FY 93. To achieve the 75% base level mandated by AID/W, we are not considering funds specifically allocated to the Mission to support regional operations. In addition, because there is a Regional Legal Advisor and a Regional Contract Officer assigned to Quito

(who are not charged to our FTE or position ceiling), it is logical that costs related to support their location here should be added to the budget. The in-country cost of these two USDH (LQA, Education Allowance, statutory travel costs, etc.) plus their five FSN clerical and support staff, as well as two FSNs in the Controller's Office dedicated solely to USAID/Colombia accounting and voucher examination, plus their share of rent, utilities, the char force and security guard contracts and USAID/Ecuador funded travel to Bogota, was \$206,000 in FY 93. This has been added to the 75% base. Therefore, the FY 93 level, \$2,640,000 multiplied by the required 75% equals \$1,980,000. To this we add the cost related to the regional support center, \$206,000, giving us an OE base for FY 94 equal to \$2,186,000. This Mission has had to make difficult choices to reach such a level.

Over the past few years, as the Mission has reduced USDH bilateral positions (from 17 in FY 89 to 12 to begin FY 94) reliance on much less expensive FSNs has increased. In addition to their high quality they are one of the least expensive staffs per person in the world. The average cost of FSNs is under \$10,000 per year. Nevertheless, even after identifying one USDH position that will not be filled, transferring seven FSNs to program funding, eliminating all NXP, all training travel, severely limited conference travel, drastically cutting supplies, site visit travel, communications, utilities and every other variable cost, a further reduction in personnel costs by \$100,000 was necessary. Due to the limited amount of time given for this exercise, we have not identified specific positions yet, or even determined if they will be FSN or US. However, USAID recognizes that a cut in staffing costs will be necessary to maintain a viable Mission at a 75% OE level. For presentation purposes, we have shown the reduction in the FSN PSC line item in the budget. If all the positions were to come from that line item it would represent a reduction in 10% of the FSN staff.

We would like to point out that relating a drastic reduction in program levels to a proportional cut in OE in the same year is not feasible. While it is not difficult to argue that it should cost less OE to run a smaller program, it can not happen simultaneously. The majority of our staff is dedicated to management of the existing program, i.e. the pipeline. An immediate cut in program level by 25% will have an impact on operating costs four and five years down the road. For example, it is impractical to reduce or eliminate project managers and voucher examiners who are overseeing AID's interest in activities that were programmed in previous years. Additionally, there are certain long term, fixed OE costs, such as office space rental, that take time to renegotiate.

As instructed, the Mission has also prepared the FY 94 budget at a target level not to exceed 100% of FY 93. Under the 100% of FY 93 scenario, we have returned to what we consider normal

operating levels. Training, conference, site visit travel, as well as essential FSN positions, have been returned to levels we believe are necessary to continue a viable program in Ecuador.

2. FY 95

In FY 95 to reach the 75% base the Mission budgeted with similar constraint, no NXP again, minimal supplies, communications and an FSN wage adjustment funded only with exchange rate gains. Also one additional USDH position has been eliminated. Again, at the 100% level in FY 95 we would return to the level considered necessary to manage our four SOs. Because of the reduced size it will be less than the FY 93 level.

3. Trust Funds

We received Operating Expense Trust Funds in FY 93 in the amount of \$620,000. The Mission obligated the limit given to us by AID/W of \$600,000 during that year. However, with the concurrence of the US Treasury, we invested the Trust Fund principle in Certificates of Deposit. Because of the interest earned the equivalent of \$125,000 was carried over to FY 94. The balance of the OE will have to be allotted to us in dollars. This Trust Fund level is the same at both the 75% and 100% levels. We do not expect to receive additional Trust Funds at the current program level.

USAID/ECUADOR FY 1994 PROGRAM BY STRATEGIC OBJECTIVE (000)			
STRATEGIC OBJECTIVE	POLICY AREA	FY 1944 CONGRESSIONAL PRESENTATION LEVEL 100%75%	
1. Increase Sustainable Economic Growth for a Broad Base of the Population			
	Growth	1,193	1,193
2. Increased Use, Effectiveness and Sustainability of Family Planning and Selected Health Services			
	Pop/Health	5,299	3,799
3. Improved Responsiveness of Selected Democratic Institutions with Greater Citizen Participation			
	Democracy	4,474	2,886
4. Promote Sustainable Use of the Natural Resources Base			
	Environment	1,804	1,577
Policy Dialogue Agenda		403	403
Targets of Opportunity		537	424
TOTALS		13,710	10,282



USAID/ECUADOR FY 1995 PROGRAM BY STRATEGIC OBJECTIVE (000)							
STRATEGIC OBJECTIVE	POLICY AREA	BASE: 100% OF FY 1994 CP LEVEL					
		50% OF BASE		75% OF BASE		100% OF BASE	
		ONGOING	NEW	ONGOING	NEW	ONGOING	NEW
1. Increase Sustainable Economic Growth for a Broad Base of the Population							
	Growth	916	500	1,144	356	1,144	505
2. Increased Use, Effectiveness and Sustainability of Family Planning and Selected Health Services							
	Pop/Health	2,032	450	2,132	356	4,958	240
3. Improved Responsiveness of Selected Democratic Institutions with Greater Citizen Participation							
	Democracy	0	0	2,600	356	3,200	540
4. Promote Sustainable Use of the Natural Resources Base							
	Environment	1,613	450	1,833	356	1,383	540
Policy Dialogue Agenda		500	0	700	0	700	0
Targets of Opportunity		394	0	450	0	500	0
TOTALS		5,455	1,400	8,859	1,424	11,885	1,825

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**TABLE V : PROPOSED PROGRAM RANKING**

RANK			PROGRAM FUNDING (\$000)	
	PROJECT	TITLE	APPROP	INCR
MCC LEVEL				
	518-0000 ✓	PROGRAM DEVELOPMENT AND SUPPORT ✓	EH ✓	200 ✓
	518-0000 ✓	PROGRAM DEVELOPMENT AND SUPPORT ✓	FM ✓	200 ✓
	518-0000 ✓	PROGRAM DEVELOPMENT AND SUPPORT ✓	HE ✓	50 ✓
	518-0000 ✓	PROGRAM DEVELOPMENT AND SUPPORT ✓	PN ✓	30 ✓
	518-0004	SPECIAL DEVELOPMENT ACTIVITIES	SD	150
	518-0051	AG SECTOR REORIENTATION PROGRAM	FM	200
	518-0071	CHILD SURVIVAL	CS	500
	518-0076	SHELTER SECTOR TECHNICAL ASSISTANCE	SD	162
	518-0081	WATER & SANITATION FOR HEALTH EDUCATION	HE	767
	518-0084	POPULATION & FAMILY PLANNING II	PN	2,370
	518-0089	POLICY DIALOGUE SUPPORT	SD	403
	518-0091	ECUADOR DEVELOPMENT SCHOLARSHIP/CLASP II	SD	957
	518-0094	TRADE AND INVESTMENT PROGRAM	SD	993
	518-0095	REGIONAL TECHNICAL AID CENTER II	EH	438
	518-0105	JUSTICE SECTOR SUPPORT	SD	500
	518-0094 ✓	TRADE AND INVESTMENT PROGRAM ✓	FM ✓	1,000 ✓
	518-0120	JUSTICE SECTOR REFORM PROGRAM	SD	1,000
	518-0069	SUSTAINABLE USES FOR BIOLOGICAL RESOURCE	FM	777
	518-0000	PROGRAM DEVELOPMENT AND SUPPORT	SD	275
	518-0111 ✓	AGRICULTURAL SECTOR DEVELOPMENT PROGRAM ✓	FM ✓	1,000 ✓
	518-0117	ENVIRONMENTAL EDUCATION - EDUCAR OPG	SD	800
	518-0091 ✓	ECUADOR DEVELOPMENT SCHOLARSHIP/CLASP II ✓	EH ✓	500 ✓
	TOTAL MCC REQUEST			13,252
INCREMENT LEVEL				
1	518-0120	JUSTICE SECTOR REFORM PROGRAM	SD	1,600
2	518-0069	SUSTAINABLE USES FOR BIOLOGICAL RESOURCE	FM	127
3	518-0000	PROGRAM DEVELOPMENT AND SUPPORT	SD	111
4	518-0117	ENVIRONMENTAL EDUCATION - EDUCAR OPG	SD	100
5	518-0113	HEALTH CARE FINANCING	SD	1,500
	TOTAL INCREMENT REQUEST			3,438
	TOTAL REQUEST			16,690

18.

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